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SUBJECT: EUROPEAN COMMISSION RELEASES "GLOBAL EUROPE: COMPETEING IN THE WORLD"

¶11. (U) Summary. On October 27, 2008, the European Commission published a report assessing the competitiveness of the European Union (EU) in the global economy. The report, entitled "Global Europe: competing in the world" concludes that since the mid-1990s, the EU has been able to broadly maintain its world market share, while the U.S. and Japan have lost ground. The report states that the EU remains the world's biggest exporter of manufactured goods, and dominates markets for high-quality products. The report warns, however, that the EU must invest in its high-technology manufacturing and continue to improve its market share in the fast-growing Asian economies. The report reinforces the economic arguments behind the 2006 European Commission's Global Europe trade policy framework. End summary.

¶12. (U) The report highlights the following strengths and weaknesses:

- Thanks to some key assets, including chemicals, pharmacy products, motor vehicles and non-electrical machinery, the EU's trade balance for manufactured products has improved sharply, reaching a surplus of 162 billion Euros in 2007. The increase of 105 billion Euros in the trade surplus since 2000 has helped to partially offset the rise in the EU's energy bill, for which the deficit increased by 137 billion Euros over the same period.

- The EU accounts for 19.5% of global markets for merchandise trade (excluding energy), down only 1.3 percentage points since 1995. Market share losses are much greater in the case of the U.S. and Japan, falling by 4.4 and 4.1 percentage points respectively. The U.S. and Japan now respectively account for 13.0% and 9.5% of the world market

- Two thirds of EU non-energy imports are 'inputs' in manufacturing processes. This underscores that the EU as a whole relies on open markets for manufacturing inputs and that open supply chains are crucial to its manufacturing strength.

- The EU's strong manufacturing performance is due to improvements in quality, combined with the ability to sell these products at premium prices because of quality, branding and related services. The EU accounts for a third of high-quality goods; these products represent half of all EU exports of manufactured goods. Building on this ability to sell products at premium price is the only way to uphold EU levels of employment, wages and social protection.

- The EU's performance in high-tech products is disappointing and slightly lower than its overall market share. Given its level of development, the EU should perform better in this sector. This raises concerns about the EU's future capacity to keep its products at the cutting edge of quality and innovation.

- The EU has lost significant market share in some of the fast-growing emerging markets, particularly in Asia. In the long run, this underperformance in some of the most promising markets could undermine the EU's position in international trade. The new generation of free trade agreements with

India, Korea and ASEAN are a direct attempt to correct this trend.

- The EU is the leading exporter of services, with 26.9% of the world market compared to 19.7% for the U.S. and 6.1% for Japan. The European Union is also the world's biggest investor and the principal recipient of foreign investment. When intra-EU stocks are excluded, the EU owns 33% and hosts 29% of world investment stocks.

¶3. (U) The European Commission's Global Europe trade policy framework was launched in 2006. Global Europe argues that Europe's economic strength is rooted in its access to imports the competitiveness of its exports. Based on this, Global Europe refocused the priorities of EU trade policy to include ensuring an open market for imports into the EU, increasing market access for EU exporters (especially in the growing markets of Asia), and improving the protection of intellectual property rights. According to the Commission, the new report reinforces the economic rationale behind the Global Europe framework.

¶4. (SBU) Comment: With respect to the latter two priorities of the 2006 global Europe trade policy framework - improving market access and improving protection of intellectual property rights -- the United States and the EU share objectives and have been working closely together. For instance, both the United States and the EU now have high-level dialogues with China aimed at improving market access, regularly share information on market access issues and solutions, and have increasingly coordinated approaches to China's obligations under the WTO agreement. Close coordination on intellectual property rights and enforcement

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was incorporated into the 2007 U.S.-EU transatlantic framework adopted at the 2007 ministerial meeting, and the United States and the EU are leading participants in the negotiation of an anti-counterfeiting trade agreement. In addition, it is useful to note that the EU's declared goals of market access would be significantly advanced by an ambitious agreement under the WTO Doha Development Agenda negotiations. End comment.

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